

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

AIR MOBILITY COMMAND FINANCIAL REPORTING
OF PROPERTY, PLANT, AND EQUIPMENT

Report No. 97-112

March 19, 1997

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Department of Defense

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Acronyms

AMC	Air Mobility Command
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
IG	Inspector General
PP&E	Property, Plant, and Equipment
USTRANSCOM	U.S. Transportation Command



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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March 19, 1997

**MEMORANDUM FOR COMMANDER, U.S. TRANSPORTATION COMMAND
COMMANDER, AIR MOBILITY COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

SUBJECT: Audit Report on Air Mobility Command Financial Reporting of Property, Plant, and Equipment (Report No. 97-112)

We are providing this report for your information and use. We audited the Air Mobility Command's financial reporting of property, plant, and equipment as part of the overall audit of the Defense Business Operations Fund financial statements. Financial statement audits are required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

We considered management comments on a draft of this report in preparing the final report. Management comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. James L. Kornides, Audit Program Director, or Mr. John K. Issel, Audit Project Manager, at (614) 751-1400. See Appendix C for the report distribution. The audit team members are listed on the inside back cover.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-112
Project No. 5FJ-2011.00

March 19, 1997

Air Mobility Command Financial Reporting of Property, Plant, and Equipment

Executive Summary

Introduction. This is the first in a series of reports from our audit of the Property, Plant, and Equipment Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund. The Air Mobility Command is a subordinate command of the U.S. Transportation Command. In 1987, the Secretary of Defense established the U. S. Transportation Command as a unified command to integrate global air, land, and sea transportation. The Air Mobility Command is the largest component of the U.S. Transportation Command. The Air Mobility Command's mission is to airlift passengers and cargo for DoD and other authorized users. In FY 1996, the Air Mobility Command was expected to generate \$2.4 billion in revenue, which represented over half of the U.S. Transportation Command's \$4 billion in expected revenue. In the beginning balance for FY 1996 Defense Business Operations Fund financial statements, the Air Mobility Command reported \$1.1 billion of Property, Plant, and Equipment.

Audit Objective. The objective of this part of the audit was to determine whether the Air Mobility Command and the Defense Finance and Accounting Service Denver Center took sufficient action to improve the accuracy of the amounts that the Defense Business Operations Fund financial statements showed for the Air Mobility Command's property, plant, and equipment.

Audit Results. The Air Mobility Command and the Defense Finance and Accounting Service Denver Center did not take the actions needed to accurately report Air Mobility Command property, plant, and equipment in the Defense Business Operations Fund financial statements. Prior audits had concluded that the property, plant, and equipment accounts were understated by at least \$155.5 million, and that \$277.6 million was unsupported. The only change that the Air Mobility Command made to its accounts in FY 1996 was to record \$64.1 million that it had budgeted for depreciation. Management made no other efforts to adjust the amounts reported. As a result, the \$1.1 billion reported as property, plant, and equipment by the Air Mobility Command will continue to be materially misstated by as much as \$433.1 million; inaccurate financial data may be used to make management decisions; and any further use of the statements will be adversely affected.

The recommendations in this report, if implemented, will improve the reliability and usefulness of the Air Mobility Command's financial reporting of its property, plant, and equipment accounts. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that the Commander, U.S. Transportation Command, and the Commander, Air Mobility Command, in conjunction with the Defense Finance and Accounting Service, take immediate action to implement the policies, procedures, and controls outlined in DoD 7000.14-R, the "DoD Financial Management Regulation," which are necessary to obtain and maintain financial data that accurately reflect the values of its property, plant, and equipment

accounts. We recommend that the Director, Defense Finance and Accounting Service, begin migration to a property accounting system for processing the Air Mobility Command's financial data on property, plant, and equipment. We also recommend that the Director, Defense Finance and Accounting Service, work with the Air Mobility Command to issue guidance and provide a means of processing the property, plant, and equipment data for the financial statements.

Management Comments. Comments were received from the Deputy Assistant Secretary of the Air Force, Financial Operations; the Director, Financial Programs and Financial Analysis, U.S. Transportation Command; the Comptroller, Air Mobility Command; and the Deputy Director for Accounting, Defense Finance and Accounting Service. Management generally concurred with the recommendations and initiated actions to improve the Air Mobility Command's financial reporting of property, plant, and equipment. These actions include implementing a property accountability system. The estimated completion date of all actions is January 1998. Management comments were responsive, and no further comments are required. See Part I for a summary of management comments and Part II for the complete text of the comments.

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Part I - Audit Results

Audit Background

U.S. Transportation Command and Air Mobility Command. In 1987, the Secretary of Defense established the U.S. Transportation Command (USTRANSCOM), Scott Air Force Base, Illinois, as a unified command to integrate global air, land, and sea transportation during wartime. In 1992, the USTRANSCOM role was expanded to include a peacetime mission. This mission is executed through the three transportation components of the Military Departments: the Army's Military Traffic Management Command (MTMC), Falls Church, Virginia; the Navy's Military Sealift Command (MSC), Washington, D.C.; and the Air Force's Air Mobility Command (AMC), Scott Air Force Base, Illinois. USTRANSCOM exercises overall command of the three transportation components, but has delegated operational control to each organization's commander. USTRANSCOM, MTMC, and MSC are almost exclusively funded from the Defense Business Operations Fund (DBOF). However, AMC receives substantial funds from both DBOF and DoD appropriated funds.

The AMC mission is to manage airlift services for DoD. It is the largest command within USTRANSCOM. During FY 1996, AMC was expected to generate \$2.4 billion in revenues, or over half of USTRANSCOM revenues of \$4 billion.

Accounting Records. The official accounting records for AMC and USTRANSCOM are maintained by the Defense Finance and Accounting Service (DFAS) Denver Center, Denver, Colorado. However, the accuracy of information entered into financial systems and reported on financial statements is the responsibility of AMC and USTRANSCOM. Preparation of financial statements is the joint responsibility of AMC, USTRANSCOM, and DFAS.

Defense Business Operations Fund. In October 1992, the Comptroller, DoD (now the Under Secretary of Defense [Comptroller]), incorporated USTRANSCOM into the DBOF. The transportation portion of the DBOF is called DBOF-T.

AMC Financial Reporting. AMC does not produce a separate set of financial statements. Its financial information is consolidated into the DBOF-T financial statements published by USTRANSCOM. The September 30, 1995, trial balance for AMC DBOF-T operations reflected a total of \$1.1 billion in property, plant, and equipment (PP&E).

Audit Objective

The objective of this part of the audit was to determine whether the AMC and the DFAS Denver Center took sufficient action to improve the accuracy of the amounts shown in the DBOF financial statements for AMC PP&E. See Part II, Appendix A, for a complete discussion of the scope, methodology, and management controls, and Appendix B for prior audit coverage.

Air Mobility Command Financial Reporting of Property, Plant, and Equipment

The AMC and the DFAS Denver Center did not take the necessary corrective actions to accurately report AMC property, plant, and equipment (PP&E) in the DBOF financial statements. Prior audits had concluded that AMC PP&E accounts were understated by at least \$155.5 million, and that \$277.6 million of the amount reported was unsupported. The only change that AMC made to its accounts was to record \$64.1 million budgeted for depreciation. Neither AMC nor the DFAS Denver Center had:

- o issued policy and guidance to direct the efforts of subordinate activities toward collection of data on each capitalized asset;
- o developed the specific data needed to report on each capital asset, such as quantity, acquisition cost, and in-service date; or
- o established the control process needed to ensure the accuracy and completeness of the financial data collected on PP&E.

These actions were not taken because AMC and the DFAS Denver Center did not collect the necessary information. Also, AMC management stated that until the DFAS Denver Center adopted a new financial information system for capital assets, corrective actions could not be initiated. DFAS Denver Center personnel told us they intended to use the Defense Property Accounting System to collect and report information on AMC PP&E. Unless the actions needed to improve the accuracy of PP&E reporting are taken, the \$1.1 billion reported as PP&E by AMC will continue to be misstated, inaccurate financial data could be used to make management decisions, and any further use of the statements will be adversely affected.

Preparation of Financial Statements

Financial Reporting Requirement. The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by "Federal Financial Management Act of 1994," (Public Law 103-356), established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. DoD is required by the legislation to prepare financial statements for substantial commercial functions, revolving funds, and trust funds of the DoD. Financial statements should provide information to DoD managers and the Congress to use in allocating resources and assessing management performance and stewardship.

PP&E Accounting Guidance. Overall accounting guidance for Federally-owned PP&E is the Federal Accounting Standards Advisory Board's Statement of Recommended Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," September, 1995. This standard defines general PP&E as assets used to provide goods or services. The standard requires recognition of those assets by business-type activities (whether or not the assets meet the definition of any other category) and requires the depreciation of those assets.

DoD has also issued general guidance for financial management of PP&E and business-type activities. The guidance is published in DoD 7000.14-R, the "DoD Financial Management Regulation." General guidance on PP&E is in volume 4, "Accounting Policy and Procedures," January 1995. Guidance on business-type activities and how they should recognize PP&E is in volume 11B, "Reimbursable Operations, Policy and Procedures--Defense Business Operations Fund," December 1994.

Financial Reporting Responsibility. The acting Comptroller, DoD, in a memorandum titled "Financial Management Responsibilities," September 25, 1992, addressed the relationship between DFAS and its clients and the responsibilities of each organization, including AMC and USTRANSCOM, for financial reporting. The memorandum specified that:

- o each DoD organization is responsible for the accuracy of information entered into financial systems and reported on financial statements; however,
- o DFAS is responsible for operating and maintaining financial systems and preparing its clients' financial statements.

DoD 7000.14-R, volume 6, "Reporting Policy and Procedure," chapter 2, "Departmental Financial Reports, Roles, and Responsibilities," February 1996, states that DoD organizations such as AMC are responsible for:

- o ensuring accuracy, completeness, timeliness, and documentary support for all data generated by the customer and input into finance and accounting systems or submitted to the DFAS for input or recording in the finance and accounting systems and included in financial reports;
- o establishing appropriate internal controls to ensure the accuracy of data provided to DFAS;
- o reviewing all reports provided by DFAS to assess the accuracy of the financial information being reported; and
- o reconciling and validating source data for financial transactions.

Volume 6, chapter 2, further states that DFAS will ensure that data provided by the customer (including data input to finance and accounting systems by the customer) are accurately and promptly recorded and processed in finance and

accounting systems. This includes performing designated disbursing and accounting operations on behalf of the customer and recording the results of those operations in a timely and accurate manner.

Problems Identified

The AMC and the DFAS Denver Center have not taken the necessary actions, identified by auditors from 1993 to the present, that would enable AMC to accurately report AMC PP&E in the FY 1996 DBOF financial statements. Prior audits concluded that AMC PP&E accounts were understated or unsupported.

Since FY 1993, the Inspector General (IG), DoD, and the Air Force Audit Agency have been unable to determine the fairness of AMC PP&E accounts. Four reports have been issued since FY 1993. The reports have generally stated that the policies, procedures, and systems either did not exist or did not present the data fairly. The reports also indicated that despite the availability of data needed for financial control of physical assets, AMC did not use the data to maintain financial control of assets. Internal controls over assets were not adequate, and accounting personnel did not accurately report or support balances for accounts. Specific problems identified in the reports were:

- o general ledger entries of \$277.6 million in capital were not adequately supported;
- o because AMC did not identify and report all facilities, real property balances were understated by at least \$155.5 million;
- o the servicing DFAS center did not provide timely guidance on capitalization of assets;
- o no system was implemented to capture, report, and support the data; and
- o appropriate asset data were not obtained prior to the close of the fiscal year, and established accounts were not used.

The Air Force Audit Agency made recommendations to DFAS and AMC to improve the accuracy of recording and supporting the balances in the PP&E accounts by selecting a system and implementing procedures for accurately capturing, recording, and supporting asset data. DFAS and AMC management concurred with the recommendations and estimated that all corrective actions would be completed by January 31, 1994. However, DFAS and AMC had not implemented the recommended actions to improve the reporting of PP&E. See Appendix B for a discussion of prior audit coverage.

AMC Financial Reporting Actions

Adjustments Taken in FY 1996. The September 30, 1995, trial balance for AMC DBOF operations reflected a total of \$1.1 billion in property, plant, and equipment. The trial balance also reflected \$493 million in depreciation; thus, PP&E had a net value of \$585 million. The only change that AMC made to its accounts in FY 1996 was to record \$64.1 million budgeted for depreciation. AMC also did not record the \$65.1 million budgeted in FY 1996 for procurements of PP&E.

Actions Needed. AMC and the DFAS Denver Center had not taken the actions needed to obtain accurate financial data for the balance of the AMC PP&E accounts. AMC had not issued the necessary policies or instructions, coordinated with its subordinate elements, or taken other actions to obtain the required financial data on PP&E.

Obtaining the financial data would have required a coordinated effort between AMC and the DFAS Denver Center. However, there was no evidence that the two organizations worked together to obtain the necessary data. Also, the DFAS Denver Center had not developed and provided AMC with a means of processing financial data on PP&E.

Attempt to Collect Financial Data. We contacted financial management, logistics, information systems, and civil engineering personnel at AMC to determine whether any actions were taken to improve PP&E reporting.

Since FY 1993, AMC had made two attempts to obtain more accurate financial data for its PP&E accounts. In FY 1993, AMC began developing a centralized database of AMC capital assets. However, AMC personnel stated that the DFAS organization serving Headquarters, AMC, had instructed AMC to stop using the database. Because the local DFAS organization had been disestablished and other personnel changes had occurred, we could not ascertain why AMC was told to stop using the database. AMC and DFAS management personnel told us that DFAS, since it is responsible for financial systems development, should provide AMC with a system for reporting PP&E. However, at the time of our audit, DFAS had not provided AMC with a system that could be used to more accurately report its PP&E assets.

In FY 1995, the AMC Civil Engineering Division began obtaining financial data on AMC facilities at five sites. However, the data were not obtained as directed by DoD 7000.14-R. The data were not recorded in the DBOF financial system because they were sent to the wrong DFAS office.

Discussions With AMC Managers. When we asked AMC managers why more timely and effective actions had not been taken to improve the reporting of PP&E, they told us that collecting the data would require extensive effort. Also, they stated that DFAS was responsible for providing a financial reporting system for PP&E, and until DFAS did so, AMC would not use its limited resources to collect the data. In the interim, AMC planned to continue, as in FY 1996, providing the DFAS Denver Center with budgetary data (projected

Air Mobility Command Financial Reporting of Property, Plant, and Equipment

procurement and depreciation of capital assets as shown in its budget) to satisfy its financial reporting requirement.

DoD regulations do not allow the use of budgetary data rather than actual cost data. Entries to accounts must be based on supported, actual events, such as calculated depreciation of an item in use. These requirements are in DoD 7000.14-R, volume 1, "General Financial management Information, Systems, and Requirements," May 1993, chapter 2, "Conceptual Framework," addendum 1, "DoD Financial Management System Principles; chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," addendum, "Key Accounting Requirements," No. 5, "Accrual Accounting" and No. 8, "Audit Trails;" and in volume 11B, chapter 62, "Expenses."

Required Data. In order to record PP&E and related depreciation in the financial records, DoD 700.14-R (volume 11B, chapter 58, "Capital Assets") requires that certain data on the assets be provided to DFAS. For each asset, DFAS needs identification data such as nomenclature, serial number, stock number, and type of asset; quantity and acquisition cost or fair market value; any additional costs such as transportation, site preparation, improvements, and related costs; acquisition or in-use date; and useful life. Depending on the type of asset, the useful life may range from 5 to 20 years.

At the time of the audit, DFAS Denver Center personnel told us they intended to use the Defense Property Accounting System to collect and report information needed on AMC PP&E. That decision was made in October 1996, and no formal action had been taken to acquire and use the system. We believe that such action, when taken, will provide the mechanism needed to improve the reliability of the \$1.1 billion reported as PP&E by AMC.

Summary

Weaknesses in the financial reporting of PP&E have been long-standing problems for DFAS and for organizations such as AMC and USTRANSCOM, for which DFAS must prepare financial statements. To present financial data fairly, as required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994, DFAS and AMC should coordinate their efforts to obtain and maintain accurate data on PP&E. DFAS should coordinate with AMC on proper financial guidance, and AMC should establish internal policies and procedures to implement the guidance. Also, DFAS should provide AMC with a mechanism (the Defense Property Accounting System is the standard DoD property accountability system) for accurate processing of data on PP&E and associated depreciation. AMC and DFAS also should jointly establish the required internal controls to ensure the accuracy of reported financial information.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander, U.S. Transportation Command, and the Commander, Air Mobility Command, in conjunction with the Director, Defense Finance and Accounting Service Denver Center, take immediate steps to improve the reliability of the Air Mobility Command's reporting of property, plant, and equipment on the financial statements, as outlined in DoD 7000.14-R, the "DoD Financial Management Regulation." Specifically:

- a. Direct the Air Mobility Command's subordinate elements to gather and report to Headquarters, Air Mobility Command, accurate data on the property, plant, and equipment assigned to them. Data should include an item identification, quantity, acquisition cost, additional cost, acquisition or in-use date, and useful life.
- b. Establish the controls, such as periodic inventories and comparisons among support documents and financial records, needed to ensure the continued accuracy and completeness of financial data on property, plant, and equipment.
- c. Continue to report the lack of accurate data on property, plant, and equipment as a material management control weakness in the Defense Finance and Accounting Service's annual statement of assurance and include a timetable for the completion of corrective actions.

Management Comments. The Deputy Assistant Secretary of the Air Force, Financial Operations; the Director, Financial Programs and Financial Analysis, U. S. Transportation Command; and the Comptroller, Air Mobility Command, generally concurred with the recommendations. On Recommendations 1.a. and 1.b., management stated that AMC, in conjunction with DFAS, was developing methodologies to identify all DBOF assets and that an interim method for keeping PP&E data current will be tested at at least one AMC location. The method will then be implemented at each AMC location, with a projected completion date of January 1998. On Recommendation 1.c., AMC plans to consider the status of the corrective actions taken in response to the audit report when determining whether problems in PP&E financial reporting constitute a material weakness to be included in the FY 1997 annual statement of assurance.

2. We recommend that the Director, Defense Finance and Accounting Service, initiate the procedures needed to begin migration to a property accounting system for processing the Air Mobility Command's financial data on property, plant, and equipment.

Air Mobility Command Financial Reporting of Property, Plant, and Equipment

Management Comments. The Deputy Director for Accounting, DFAS, nonconcurred with Recommendation 2. and stated that AMC is responsible for migrating to a property accountability system. However, the Deputy Director indicated that meetings were held or planned with AMC to discuss the migration to the Defense Property Accountability System.

Audit Response. Although the Deputy Director for Accounting, DFAS, nonconcurred with the recommendation, the planned actions met the intent of the recommendations.

3. We recommend that the Director, Defense Finance and Accounting Service Denver Center:

- a. Provide guidance to the Air Mobility Command on the information needed to fairly present financial data on property, plant, and equipment.
- b. Verify that the financial statements reflect the financial data on property, plant, and equipment reported by the Air Mobility Command.

Management Comments. The Deputy Director for Accounting, DFAS, concurred and stated that guidance on the information necessary to fairly present financial data will be provided to AMC by April 1997. The Deputy Director for Accounting also stated that DFAS will ensure that financial statements accurately reflect PP&E financial data reported by AMC.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope and Methodology

During this part of our "Audit of Property, Plant, and Equipment Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund," we reviewed actions taken by AMC, USTRANSCOM, and DFAS to correct previously reported deficiencies in the PP&E accounts in the AMC portion of the USTRANSCOM financial statements. We reviewed prior audit reports that addressed the financial reporting of PP&E for AMC for FYs 1992 through 1994 and the character of the reported deficiencies. We also reviewed management responses to the reported deficiencies. Additionally, we examined documentation and discussed with senior management officials at USTRANSCOM, AMC, and DFAS the actions taken and planned to correct the deficiencies.

This financial-related audit was conducted from April through August 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data or statistical sampling procedures.

Organizations and Individuals Visited or Contacted

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Management Control Program

Both USTRANSCOM and AMC reported material weaknesses in financial systems and controls over PP&E in the annual statement of assurance required by the management control program. The Commander, USTRANSCOM, in the management representation letter to the IG, DoD, which accompanied the FY 1995 financial statements, identified procedural and systemic deficiencies that could prevent auditors from expressing an unqualified opinion on the financial statements. The following deficiencies were identified.

- o As a result of weaknesses in internal control systems and procedures, depreciation is likely to be computed incorrectly.

- o Property is misstated and not reconciled because systems used by USTRANSCOM organizations do not always provide complete and accurate information.
- o Reporting entities frequently rely on information from operational and logistics systems.
- o Management lacks assurance that source data are accurate.

Neither statement provided a plan of action or an estimated date for the completion of corrective actions. The weaknesses have been long-standing problems, and minimal efforts have been made to correct them. Management recognized the weaknesses, but had reservations about expending the resources needed to correct them. Resolving the weaknesses will require management commitment, resources, and a coordinated effort between USTRANSCOM, AMC, and DFAS.

Appendix B. Summary of Prior Audits and Other Reviews

Since FY 1993, the (IG), DoD, and the Air Force Audit Agency have been unable to express opinions on the fairness of AMC PP&E accounts. The reports have generally stated that policies, procedures, and systems did not exist; and, therefore, the financial statements did not fairly present the data. The principal reports are summarized below.

IG, DoD, Report No. 94-163. This report, "Management Data Used to Manage the U.S. Transportation Command and the Military Department Transportation Organizations," was issued on June 30, 1994. The report stated that data needed to control physical assets were generally available but were not always used. Property records, purchase orders, and invoices were available from a number of sources. Despite the availability of data, AMC did not use the data to maintain financial control of assets. This occurred because the servicing DFAS activity did not have a system for evaluating, capturing, and recording asset transactions and transferring the data to financial statements. Because the servicing DFAS activity planned to select a system to record assets, a recommendation was not made. However, the report observed that AMC could create a system of manual ledgers for use until DFAS implemented a new financial reporting system. Neither AMC nor DFAS used such a system during FY 1996.

Air Force Audit Agency Report No. 94068040. This report, "Review of Selected Accounts, Airlift Services Division, United States Transportation Command Business Area, Fiscal Year 1994," was issued on July 14, 1995. The report stated that internal controls over assets were not totally adequate and that accounting personnel did not accurately report or support balances for accounts. Because of the overall condition of the accounting records and the absence of reliable data, testing of internal controls was limited to selected accounts. The Air Force Audit Agency found a significant number of errors in the transactions reviewed. Therefore, the auditors were unable to comment on the overall accuracy of year-end balances. Specifically:

- o general ledger entries of \$277.6 million in capital were not adequately supported;
- o AMC did not maintain an accurate database to track and report real property; and
- o because AMC did not identify and report all facilities, real property balances were understated by at least \$155.5 million.

The Air Force Audit Agency made six recommendations to DFAS and two recommendations to AMC to improve the accuracy of recording and supporting the balances in the PP&E and capital accounts. DFAS and AMC management concurred with the recommendations, but had not implemented the recommended actions.

Air Force Audit Agency Report No. 93077001. This report, "Internal Control and Management Issues Related to Air Force Transportation, Defense Business Operations Fund, Fiscal Year 1992 Financial Statements," was issued on January 13, 1994. The report stated that PP&E accounts and related depreciation were not properly reported. This occurred because:

- o the servicing DFAS center did not provide timely guidance on the capitalization of assets;
- o no system was implemented to capture, report, and support the data; and
- o appropriate asset data were not obtained prior to the close of the fiscal year, and established accounts were not used.

The Air Force Audit Agency addressed recommendations for corrective actions to the servicing DFAS center and activity, to be coordinated with the AMC Financial Management Directorate. Recommendations were made to select a system and implement procedures for accurately capturing, recording, and supporting asset data. DFAS management, in coordination with the AMC Financial Management Directorate, concurred with all the recommendations and estimated that corrective actions would be completed by January 31, 1994. However, DFAS and AMC did not take effective actions to improve the reporting of PP&E.

Appendix C. Report Distribution

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House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

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Part III - Management Comments

Department of the Air Force Comments



Office of the Assistant Secretary

DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

JAN 21 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/FMP
1130 Air Force Pentagon
Washington DC 20330-1130

SUBJECT: DoDIG Draft Audit Report on Air Mobility Command Financial Reporting of
Property, Plant, and Equipment, (Project No. 5FJ-2011)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force
(Financial Management and Comptroller) provide you Air Force comments on subject report.

We concur with the finding and with recommendation 1. After initial research and discussions with DFAS, systems currently used in AMC do not appear adequate to accurately report PP&E data to DFAS. If we employ aspects of the Defense Property Accountability System (DPAS) to account for AMC PP&E, certain critical processes would remain manual. Whether the manual processes would be cost-effective and the accuracy objective would be achieved are questionable. Accordingly, AMC is continuing to explore with DFAS the feasibility of developing automated interfaces with the systems currently used in AMC.

Regarding recommendation 1 subparagraph a, concur. AMC is developing methodologies to identify the assets currently employed in DBOF, although there are problems to overcome. (For example, relevant acquisition data may not be available on PP&E acquired 4 years ago or earlier.) The first meeting with DFAS was 3-4 December 1996 and the next is scheduled for 12-13 February 1997. Accurate and cost-effective reporting of PP&E can only be assured when supporting automated systems have been deployed. Until then, we can only use an interim method. Estimated completion date is 1 January 1998.

Regarding recommendation 1 subparagraph b, concur. In conjunction with DFAS, AMC is developing the initial methodology for keeping the data on PP&E updated and current. Once developed, AMC plans to test the methodology on at least one AMC base and then implement at each AMC location. Estimated completion date is 1 January 1998.

Department of the Air Force Comments

2

Regarding recommendation 1 subparagraph c, concur with intent. AMC will consider the status of corrective actions taken in response to the findings and recommendations in this audit report in determining if the financial reporting problems with PP&E are a material weakness to be included in the AMC Statement of Assurance for FY 97. Estimated completion date is 1 October 1997.



JOHN J. NETHERLY
Deputy Assistant Secretary Financial Operations
(Financial Management)

United States Transportation Command Comments



UNITED STATES TRANSPORTATION COMMAND 508 SCOTT DR SCOTT AIR FORCE BASE IL 62225-5357

28 JAN 1997

MEMORANDUM FOR DOD (IG)
ATTENTION: MR ISSEL

FROM: TCJ8

SUBJECT: Audit Report on Air Mobility Command Financial Reporting of Property,
Plant, and Equipment (Project No. SFJ-2011.00)

1. USTRANSCOM's financial position is presented annually in the Chief Financial Officers (CFO) report for DBOF-Transportation (DBOF-T). The CFO report for DBOF-T is a roll up of annual financial statements for the Air Mobility Command (AMC), the Military Sealift Command (MSC), and the Military Traffic Management Command (MTMC), and the Defense Courier Service (DCS). AMC's financial statements are part of the consolidated CFO report for USTRANSCOM; therefore, we are providing AMC's management comments to subject audit.
2. We reviewed AMC's management comments and concur. USTRANSCOM is working closely with DFAS through the "DFAS and USTRANSCOM Transportation Steering Group" to correct reporting deficiencies. We are also working with DFAS to implement a new accounting system that will have the appropriate interfaces with other systems, such as, the Defense Property Accountability System (DPAS). Although these actions will require time to complete, we are confident that USTRANSCOM's CFO report will eventually meet all requirements of the CFO Act.
3. If you have any questions, please contact Ms. Gail Hammersmith, TCJ8-T, DSN 576-7804, or Ms. Nancy Brown, TCJ8-B, DSN 576-8795.

ROBERT L. RACHOR, JR.
Captain, USN
Director, Financial Programs and
Financial Analysis

Attachment:
AMC/FM Ltr, 17 Jan 97

Air Mobility Command Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR MOBILITY COMMAND

17 JAN 1997

MEMORANDUM FOR SAF/FMPS

FROM: HQ AMC/FM
402 Scott Drive Unit 1K1
Scott AFB IL 62225-5311

SUBJECT: DoDIG Draft Audit Report on Air Mobility Command Financial Reporting of
Property, Plant, and Equipment (PP&E) (Project No. 5FJ-2011) (Your Memo,
17 Dec 96)

1. This is in reply to your memorandum requesting management comments on the subject audit report.

2. Finding - Weaknesses in the financial reporting of PP&E have been long-standing problems for DFAS and for organizations such as AMC and USTRANSCOM, for which DFAS must prepare financial statements. HQ AMC and DFAS also should jointly establish the required internal controls to ensure the accuracy of reported financial information.

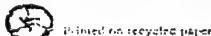
Concur. We agree with the finding that problems in reporting AMC PP&E in DBOF financial statements have been long-standing and must be improved. After initial research and discussions with DFAS on these issues, we believe systems currently used in AMC will not satisfy requirements of a mechanism for accurate reporting of PP&E data. If we employ aspects of the Defense Property Accountability System (DPAS) in accounting for AMC PP&E, there are critical processes for updating PP&E data that would remain manual. Without an automated system, we question whether the accuracy objective would be achieved and whether the manual processes would be cost-effective. We are continuing to work with DFAS to determine the feasibility of developing automated interfaces with systems currently in use in AMC.

3. Recommendations:

a. Direct the Air Mobility Command's subordinate elements to gather and report to Headquarters, Air Mobility Command, accurate data on the property, plant, and equipment assigned to them. Data should include an item identification, quantity, acquisition cost, additional cost, acquisition or in-use date, and useful life.

Concur. We are in the process of defining the AMC PP&E to be reported in DBOF financial statements. In the past, there have been no systems to support this requirement. Therefore, we are developing methodologies to identify the assets currently employed in DBOF; there are problems that must be overcome, such as PP&E acquired 4 years ago or even earlier, and relevant

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Air Mobility Command Comments

data on the acquisition may have not been maintained. Our first meeting with DFAS was on 3-4 Dec 96, and we have another meeting scheduled for 12-13 Feb 97. We believe that accurate and cost effective reporting of PP&E will only be ensured when supporting automated systems have been deployed, which may be several years away. Until then, we can only employ an interim method. Estimated completion date is 1 Jan 98.

b. Establish the controls, such as periodic inventories and comparisons among support documents and financial records, needed to ensure the continued accuracy and completeness of financial data on property, plant, and equipment.

Concur. In conjunction with DFAS, we are developing the initial methodology for keeping the data on PP&E updated and current. The plan will include a test on at least one AMC base and then implementation at each AMC location. Estimated completion date is 1 Jan 98.

c. Continue to report the lack of accurate PP&E information as a material management control weakness in the DFAS statement of assurance and include a timetable for the completion of corrective actions.

Concur with intent. We will consider the findings and recommendations in this audit report and the status of corrective actions in determining if the problems in financial reporting of PP&E are a material weakness to be reported in the AMC Statement of Assurance for FY97. Estimated completion date is 1 Oct 97.

4. POC is Lt Col Joe Buchwald, HQ AMC/FMPC, DSN 576-2616.



C. G. BRIDGES, Brigadier General, USAF
Comptroller

Defense Finance and Accounting Service Comments

 DFAS-HQ/APC	<p>DEFENSE FINANCE AND ACCOUNTING SERVICE 1931 JEFFERSON DAVIS HIGHWAY ARLINGTON, VA 22240-5291</p> <p>FEB 28 1997</p> <p>MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE</p> <p>SUBJECT: Audit Report on Air Mobility Command Financial Reporting of Property, Plant, and Equipment (Project No. 5FJ-2011.00)</p> <p>As requested by the Acting Director, Finance and Accounting Directorate, Office of the Inspector General, Department of Defense, memorandum of November 29, 1996, subject as above, our comments to recommendations directed to the Defense Finance and Accounting Service are attached.</p> <p>If additional information is required, my point of contact is Ms. Ethel Watson. She may be reached on (703) 607-1578.</p> <p><i>Ed Harris</i> for Thomas F. McCarty Deputy Director for Accounting</p> <p>Attachment</p>
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Defense Finance and Accounting Service Comments

**Audit Report on Air Mobility
Command Financial Reporting of
Property, Plant, and Equipment
(Project No. 5FJ-2011.00)**

- Recommendation 2: We recommend that the Director, Defense Finance and Accounting Service initiate the procedures needed to begin migration to a property accounting system for processing Air Mobility Command financial data on property, plant and equipment.

DFAS Response: Nonconcur. The responsibility for the migration to a property accountability system for financial data on property, plant and equipment (PP&E) rests with the Air Mobility Command (AMC). However, DFAS will assist AMC in this process. In that regard, the system selected by OSD is the Defense Property Accountability System (DPAS).

Since DPAS was selected as the system to be used for PP&E, a meeting was held in December 1996 at DFAS with the DPAS implementation team, selected AMC, USTRANSCOM, and DFAS-DE operating location representatives. The purpose of this meeting was to provide an overview of the DPAS system and to familiarize the end user with the system in a stand-alone configuration and as a fully integrated module. A follow-on meeting was held on February 11 and 12, 1997, at HQ AMC to finalize the overall DPAS implementation plan.

Estimated Completion Date: February 1, 1998.

- Recommendation 3: We recommend that the Director, Defense Finance and Accounting Service Denver Center:
 - a. Provide guidance to the Air Mobility Command on the information needed to fairly present financial data on property, plant, and equipment.
 - b. Verify that the financial statements reflect the financial data on property, plant, and equipment reported by the Air Mobility Command.

Attachment

Defense Finance and Accounting Service Comments

DFAS RESPONSE:

a. Concur. Guidance to be used by USTRANSCOM on the information needed to fairly present financial data on PP&E in the financial statements before implementation of DPAS will be provided to AMC by April 1, 1997. Also, guidance to identify USTRANSCOM real property was provided to the Air Force Real Estate Office on September 25, 1996.

Estimated Completion Date: April 1, 1997.

b. Concur. DFAS will verify that the financial statements accurately reflect financial data on PP&E as reported by AMC.

Estimated Completion Date: November 30, 1997.

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
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Terry D. Holdren
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

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Arlington, VA 22202-2884

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